Manitoba

Education

Teachers' Retirement
Allowances Fund Board

115 — 1200 Portage Avenue
Winnipeg, Manitoba, CANADA
R3G 0T5

(204) 945-6199

28th June, 1985

The Honourable Maureen Hemphill,
Minister of Education,
Room 168, Legislative Building,
Winnipeg, Manitoba,
R3C 0V8.

Dear Madam Minister:

In accordance with subsection 45(3) of The Teachers' Pensions Act, we are pleased to report on our administration of The Teachers' Retirement Allowances Fund for the year ended December 31, 1984. Appended to and forming part of this report are the following:

1. Statement of "Comparative Statistics" of significant aspects of the Fund covering the period from inception in 1925 to the end of 1984.

2. Report of the Provincial Auditor on his examination of the accounts of the Fund for the year ended December 31, 1984, as required by clause 45(3)(a) of the Act.

3. Financial Statements in respect of the year ended December 31, 1984 as follows:

   Exhibit A - Balance Sheet as at December 31, 1984

   Exhibit B - Statement of Changes in Benefit Reserves for the year ended December 31, 1984

   Schedule 1 - Summary of Investments as at December 31, 1984

   Schedule 2 - Summary of Investment Income for the year ended December 31, 1984

   Notes to the Financial Statements for the year ended December 31, 1984.

.../2

INVESTMENTS:

During 1984, invested assets increased by almost $44,000,000. This amount along with over $22,000,000. of funds received from securities sold or matured was invested as follows:

	% of Total	Cost (thousand $)	Average Yield %
Bonds - Government of Canada	7.8	$ 5,137,	12.42
- City of Brandon	1.9	1,266,	14.50
- Winnipeg Health Sciences Centre	3.0	2,000,	13.40
- Canadian Corporations	12.6	8,363,	13.70
Total Bonds	25.3	16,766,	13.33
Mortgages - Insured, N.H.A.	6.4	4,248,	13.69
- Insured, other	.4	254,	10.40
- Uninsured	4.5	2,982,	13.30
Total Mortgages	11.3	7,484,	13.42
Total Fixed Income	36.6	$24,250,	13.36
Equity Investments			
Real Estate	4.7	3,093,	
Direct Natural Resources	15.5	10,260,	
Venture Capital	5.4	3,570,	
Canadian Commercial Bank preferred shares	1.5	1,000,	
Miscellaneous	--	40,	
Total Equity	27.1	$17,963,	
Total Longer Term Investment	63.7	$42,213,	
Short Term Investment	36.3	24,050,	
Total New Investment	100.0	$66,263,	

As investments in real estate, mortgages, venture capital and direct acquisition of natural resource assets require advance commitment of funds which are paid out during or on completion of construction or as required to fund venture capital or natural resource acquisition, over $25,000,000. of unfunded commitments were in place at the end of the year as follows:

.../3

	Amount (thousand $)	Average Yield
Mortgages, Insured, N.H.A.	$ 732,	14.77%
Real Estate Equity	7,168,	
Direct Natural Resources	13,730,	
Venture Capital	3,913,	
Total Commitments	$25,543,	

Under the Act, investments are made as directed by the Investment Committee, comprised of the Chairman and a "teacher" member of the Board and the Deputy Minister of Finance for the Province. The Committee held 9 formal meetings during 1984 and the results of its decisions are portrayed in the preceding paragraphs. Although there was a net increase in the amount invested in every asset class, the percentage of total investments representing fixed income securities reduced by approximately 6% to 58.8%, offset primarily by an increase in short term investments from 14.4% to 19.2% of the total portfolio.

The rate of return on the average net assets of the Fund declined in 1984 to 8.86% from 10.45% in the preceding year. We would direct your attention to Note 1(B)(ii) to the accompanying financial statements and the reference therein to the Fund's investments in Canadian Commercial Bank. If this event had not occurred, the 1984 rate of return would have been approximately 10.85%.

PENSIONS:

During the year there was a net increase of 116 in the number of retirement income and other monthly benefits being paid. Following is a summary of persons receiving different types of retirement income benefits at December 31, 1984:

Regular service pensions -	
to retired teachers	2,945
to dependants or estates of deceased retired teachers	95
Disability pensions -	
to retired disabled teachers	117
to dependants or estates of deceased retired disabled teachers	4

Death Benefits -	
to surviving spouses or children of deceased teachers	52
Special Annuities -	
to former teachers of retirement age not entitled to regular pensions	142
	3,355

ACTUARIAL VALUATIONS:

As required by the Act, an actuarial appraisal of the Fund is made every 3 years. The appraisal as at January 1, 1984, was received on January 21, 1985, and a copy was forwarded to you immediately thereafter. The appraisal disclosed an actuarial surplus of $37,677,206. as compared to an unfunded liability at January 1, 1981 of $19,506,225. Therefore, the Fund is in a financial position to pay its share of the cost of all benefits to present members that are promised under the Act.

PENSION REFORM:

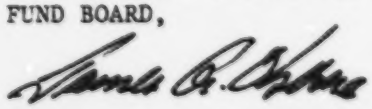
As noted in our report last year, amendments that were made to The Pension Benefits Act during 1983 are applicable to this plan, as that Act supercedes The Teachers' Pensions Act. Compliance with many of the changes in The Pension Benefits Act requires that amendments be made to The Teachers' Pensions Act and we note that you have presented a Bill at the current Legislative Session that will, among other things, accomplish this result. The Actuary has estimated that a significant proportion of the surplus disclosed in the 1984 actuarial valuation will be required to offset the increase in liabilities that will result from amendments to bring the plan into compliance with The Pension Benefits Act.

BOARD MEMBERSHIP:

During the year, Mr. George Eakin was appointed a member of the Board to fill the vacancy created by the resignation by Mr. Gary McMillan and Messrs. Jake O'Rourke and Murray Smith were appointed to replace Mr. Ray Whiteway and Miss Marilyn Thompson whose terms of appointment expired on June 30, 1984. We regret to advise that Mr. O'Rourke passed away on April 22nd, 1985, and would record our appreciation for the contribution that both he and the retiring members made to the administration of the Fund during the time they served as members of the Fund.

Respectfully submitted,

THE TEACHERS' RETIREMENT ALLOWANCES FUND BOARD,



by James G. Oborne, Chairman

JGO/bjt.

Members:

(2) George Eakin
William E. Lavery, Vice Chairman
(1) David Lerner
(2) Jake O'Rourke
(1) Murray Smith
(1) Kenneth Valainis

(1) Nominated by The Manitoba Teachers' Society

(2) Nominated by The Manitoba Association of School Trustees

TEACHERS' RETIREMENT ALLOWANCES FUND BOARD

COMPARATIVE STATISTICS

1925 - 1984

Year Ended 30th June	Net Assets	Income From Investments			CONTRIBUTIONS			Admin. Expenses	Refunds	Pensions			
			Approx. Rate of Return	Number of Teachers Contributing	Teachers	Province of Manitoba	School Districts			Cost	Being paid at end of period	Added during period	Deleted during period
	Thousand $	Thousand $			Thousand $	Thousand $	Thousand $	Thousand $	Thousand $	Thousand $			
1925 to 1948	1,866,	628,	4.00		1,761,	248,	--	33,	279,	464,	109	192	83
1949 to 1963	23,225,	5,548	3.25-4.70	7,750	12,422,	3,830,	3,617,	258,	2,630,	5,500,	781	958	286
1964	25,316,	1,144,	4.85	8,700	2,247,	256,	527,	44,	531,	1,509,	895	148	34
1965	28,084	1,281,	5.00	9,000	3,137,	201,	539,	40,	610,	1,750,	960	101	36
1966	30,387,	1,427,	5.00	9,400	2,962,	538,	287,	39,	803,	2,072,	1,032	102	30
1967	33,746,	1,574,	5.15	9,750	2,972,	1,017,	11,	44,	859,	2,251,	1,084	88	36
1968	36,839,	1,735,	5.35	10,650	3,655,	1,227,	20,	57,	904,	2,594,	1,155	120	49
1969	40,627,	2,008,	5.50	11,150	4,332,	1,394,	12,	56,	990,	2,906,	1,253	138	40
1970	44,828,	2,320,	5.60	11,650	4,710,	1,578,	13,	64,	1,116,	3,261,	1,357	143	39
6 mos. ended 31 Dec. 1970	46,311,	1,369,	6.00	11,750	1,806,	1,280,	5,	31,	649,	2,310,	1,458	124	23
year ended 31st Dec.													
1971	52,119,	3,125,	6.19	12,100	5,620,	3,123,	16,	90,	1,048,	4,955,	1,606	195	47
1972	60,249,	3,977,	6.40	12,000	6,281,	3,841,	10,	114,	1,244,	5,670,	1,737	182	51
1973	68,188,	3,996,	6.53	12,200	6,982,	6,100,	9,	123,	1,186,	7,076,	1,980	293	50
1974	77,256,	3,078,	4.43	12,300	7,862,	8,755,	8,	136,	1,449,	8,957,	2,176	244	48
1975	89,277,	7,008,	8.94	12,400	9,316,	7,538,	6,	168,	1,385,	10,661,	2,289	171	58
1976	101,988,	8,090,	8.91	12,500	10,656,	8,519,	5,	215,	1,471,	12,388,	2,416	175	48
1977	117,140,	9,260,	8.91	12,600	12,348,	9,322,	5,	290,	1,449,	14,018,	2,524	161	53
1978	137,127,	12,007,	9.91	12,716	14,538,	9,985,	11,	261,	1,499,	15,489,	2,649	187	62
1979	159,066,	14,917,	10.60	12,533	16,292,	10,859,	4,	292,	1,817,	17,212,	2,789	196	56
1980	184,458,	17,181,	10.53	12,471	18,065,	11,848,	5,	358,	2,174,	19,050,	2,935	218	72
1981	222,755,	22,877,	14.02	12,805	25,985,	12,617,	-	404,	2,191,	20,867,	3,007	143	71
1982	272,360,	27,991,	11.96	12,907	26,293,	13,912,	-	493,	2,210,	23,054,	3,117	194	84
1983	316,200,	29,139,	10.45	12,915	27,557,	15,183,	-	549,	2,027,	25,519,	3,239	197	75
1984	360,060,	28,579,	8.86	13,111	29,580,	16,453,	-	660,	1,980,	28,522,	3,355	213	97

Manitoba

THE TEACHERS' RETIREMENT ALLOWANCES FUND

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the financial statements, being Exhibits A and B and Schedules 1 and 2, of The Teachers' Retirement Allowances Fund for the fiscal year ended December 31, 1984. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1984 and the results of its operations for the year then ended in accordance with the accounting policies stated in Note 1 to the financial statements applied on a basis consistent with that of the preceding year.

F. H. Jackson, C.A.,
Provincial Auditor.

June 25, 1985,
Winnipeg, Manitoba.

Exhibit A

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Balance Sheet
as at December 31, 1984
(with 1983 figures for comparison)

A S S E T S

	1984	1983
Investments, Schedule 1	$ 352,052,572	$ 308,703,266
Unamortized net adjustment to book value of securities sold before maturity	155,600	139,072
Accrued interest on investments	4,872,660	4,557,430
Investment income receivable	481,749	348,765
Balance of teacher and school division contributions owing by school divisions	2,414,587	2,105,519
Computer equipment, Note 1(F) at cost, less accumulated amortization: 1984 - $10,666	95,888	
Cash on hand and in bank (book overdraft)	(13,420)	345,823
	$ 360,059,636	$ 316,199,875

L I A B I L I T I E S

Balance of Province of Manitoba Account	$ (115,472)	$ (98,542)
Benefit Reserves, Exhibit B:		
Reserves for teachers' share of benefits:		
Basic	329,761,020	290,480,506
Pension indexing adjustments	28,933,736	24,567,296
Reserves for employers' share of benefits:		
Manitoba Teachers' Society	1,008,717	872,380
Manitoba Association of School Trustees	94,187	77,587
	359,797,660	315,997,769
Reserve for Fund's share of employees' pension benefits (Note 1E)	377,448	300,648
	$ 360,059,636	$ 316,199,875

Exhibit B

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Statement of Changes in Benefit Reserves
for the year ended December 31, 1984
(with 1983 figures for comparison)

	1984					1983
	Reserve for Teachers' Share of Benefits		Reserve for Employers' Share of Benefits			
	Basic	Pension Indexing Adjustments	Manitoba Teachers' Society	Manitoba Association of School Trustees	Total	Total
Additions:						
Contributions:						
Teachers	$ 25,074,243	$ 4,505,815	$ --	$ --	$ 29,580,058	$ 27,557,275
Province of Manitoba						
Share of benefits charged	14,705,313	--	--	--	14,705,313	13,429,590
Re: Actuarial liability created by 1970 and 1973 amendments	1,613,300	--	--	--	1,613,300	1,613,300
Prior rural service of certain Winnipeg teachers	134,780	--	--	--	134,780	140,485
Manitoba Teachers' Society	--	--	75,384	--	75,384	59,362
Manitoba Association of School Trustees	--	--	--	7,711	7,711	11,113
Other - Transfers under reciprocal agreements	522,441	--	--	--	522,441	706,167
Total contributions	42,050,077	4,505,815	75,384	7,711	46,638,987	43,517,292
Investment Income, Schedule 2 (Note 1)	25,180,824	3,258,632	93,691	8,889	28,542,036	29,108,063
Total additions	67,230,901	7,764,447	169,075	16,600	75,181,023	72,625,355
Deductions:						
Pensions paid	25,091,545	3,398,007	32,738	--	28,522,290	25,519,403
Contributions refunded	1,980,111	--	--	--	1,980,111	2,027,408
Transfers under reciprocal agreements	218,863	--	--	--	218,863	669,885
Administrative expenses	659,868	--	--	--	659,868	549,415
Total deductions	27,950,387	3,398,007	32,738	--	31,381,132	28,766,111
Net increase for year	39,280,514	4,366,440	136,337	16,600	43,799,891	43,859,244
Balance at beginning of year	290,480,506	24,567,296	872,380	77,587	315,997,769	272,138,525
Balance at end of year, Exhibit A	$ 329,761,020	$ 28,933,736	$ 1,008,717	$ 94,187	$ 359,797,660	$ 315,997,769

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Invertments as at December 31, 1984

	Par Value	Book Value
Fixed income longer term investments:		
Bonds and debentures issued by, or guaranteed by, the following:		
Canada	$ 18,805,000	$ 18,552,836
Province of Alberta	165,000	164,699
Province of British Columbia	328,000	325,750
Province of Manitoba	20,874,000	20,852,011
Province of New Brunswick	965,000	961,520
Province of Newfoundland	1,150,000	1,143,625
Province of Nova Scotia	270,000	268,025
Province of Ontario	1,525,000	1,520,203
Province of Prince Edward Island	740,000	732,049
Province of Quebec	960,000	956,485
Province of Saskatchewan	350,000	348,370
Hospital Districts	6,602,000	6,575,104
Municipal corporations	10,560,956	10,524,854
School districts and divisions	20,000	19,972
Corporations	50,533,733	48,642,850
Managed bond fund	10,000,000	10,000,000
	$ 123,848,689	$ 121,588,353
Mortgages:		
Insured:		
National Housing Act (Canada)	61,518,282	62,316,063
Other	10,320,049	10,365,831
Uninsured	16,426,764	16,342,254
	$ 88,265,095	
Total fixed income longer term investments at amortized cost		210,612,501
Less: Provision for losses		1,215,682
Net fixed income longer term investments, carried forward		$ 209,396,819

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investments
as at December 31, 1984

	Book Value
Brought forward	$ 209,396,819
Non-fixed income investments:	
Real estate equity investments:	
Common shares	23,296,384
Participating bonds	31,503,140
Qualifying shares	10,000
Total real estate equity investments, at appraised values	54,809,524
Less: Provision for decline in appraised values	2,741,000
Net real estate equity investments	52,068,524
Direct natural resource investments:	
Shares and notes, at cost plus interest in retained earnings	7,421,494
Investment in subsidiary (Note 3)	4,386,196
Total direct natural resource investments	11,807,690
Venture capital equity investments, at cost	7,016,595
Mortgage investment corporation shares, at cost	1,612,015
Listed common shares, at market value	40,065
Canadian Commercial Bank investments (Note 1(B)(ii)):	
Common shares	1,092,981
Preferred shares	280,000
Realty Investors' Trust Units	287,883
Total non-fixed income investments	74,205,753
Short Term notes, at cost	68,450,000
Total investments, Exhibit A	$ 352,052,572

Schedule 2

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investment Income
for the year ended December 31, 1984
(with 1983 figures for comparison)

	1984	1983
Fixed income longer term investments:		
Interest	$ 24,086,957	$ 21,755,900
Amortization of discounts and premiums	349,255	302,160
	24,436,212	22,058,060
Less: Allocation to provision for capital losses	522,515	475,290
	23,913,697	21,582,770
Non-fixed income investments:		
Real estate equity:		
Interest and dividends	3,677,313	2,997,858
Adjustment due to changes in book value of investments	354,696	341,166
	4,032,009	3,339,024
Direct natural resource:		
Dividends	537,000	--
Adjustments due to changes in book value of investments	164,462	--
	701,462	--
Venture capital equity:		
Dividends	10,787	--
Mortgage investment corporations:		
Dividends	144,024	132,990
Canadian Commercial Bank:		
Dividends	73,164	108,000
Adjustment due to changes in book value of investments (Note 1(B)(ii))	(6,327,136)	--
	(6,253,972)	108,000
Short term notes:		
Interest	6,031,358	3,975,927
Total investment income	28,579,365	29,138,711
Less: Allocated to Reserve for Fund's share of employees' pension benefits	37,329	30,648
Net investment income, Exhibit B	$ 28,542,036	$ 29,108,063

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Notes to the Financial Statements
for the year ended December 31, 1984

1. Significant Accounting Policies:

The significant accounting policies are summarized below:

(A) The Fund follows the accrual basis of accounting in all cases where the amount of the accrual is material, specifically teacher contributions and fixed investment income.

(B) The investment income measurement policies consist of:

(i) Fixed income investments:

Income on fixed income investments includes the net effect of amortization of discounts and premiums on securities held as well as amortization of book losses on bonds sold before maturity in order to acquire other securities for an increase in net yield.

One quarter of 1% of the weighted average monthly book value during the year of fixed income longer term investments is allocated to a provision for capital losses and any actual losses realized are charged against the provision.

(ii) Equity investments:

Where valuation information is available, which is considered by the Investment Committee to be reliable, equity investments are adjusted to reflect the change in their values. One-half of any unrealized appreciation is taken into income in the year and the balance is credited to the provision for valuation declines. In any year that the valuations decrease, the whole of the decrease is charged to the provision. When an investment is sold, the balance in the provision pertaining to the investment sold is transferred to income. At the end of 1984, no valuation information was available in respect of equity investments held that was considered by the Investment Committee to be sufficiently reliable to justify adjustments to recorded values, as was the case at the end of 1983. As a result of actions taken by Canadian Commercial Bank subsequent to the year end and before preparation of these statements, it was determined that the cost of the Fund's investments in the bank was significantly in excess of realizable value. Accordingly, the carried values of these securities have been written down from $7,988,000 to $1,660,864 and the book loss of $6,327,136 has been applied as a reduction in 1984 investment income.

(iii) Real estate equity investments:

The same income measurement policy that applies to the Fund's other equity investments has been adopted for real estate equity investments. The Board has recognized appraised values

of the underlying properties on real estate investments for purposes of this policy. Appraisals are done by management and test verified by independent appraisers at September 30 in each year. The Fund's share of the appraisal surplus on that date is reflected in the accounts. Transactions recorded as a result of this policy were as follows:

		Added to	
	Appraisal Surplus	Investment Income	Provision for Market Declines
As at December 31, 1980	$ 6,749,000	$ 3,374,000	$ 3,375,000
Year ended December 31, 1981	7,688,000	3,844,000	3,844,000
Year ended December 31, 1982	(1,754,000)		(1,754,000)
Year ended December 31, 1983	(2,174,000)		(2,174,000)
Year ended December 31, 1984	(550,000)		(550,000)
Balances, December 31, 1984	9,959,000		$ 2,741,000
Real estate investments, cost	44,850,524		
Real estate investments, appraised value	$54,809,524		

(C) Pension Indexing Adjustment Reserve:

An allocation of teachers' contributions is made in accordance with the Act to the reserve. Interest is allocated to the reserve on the basis of the average rate earned by the Fund on total new fixed income investments made since establishment of the reserve.

Cost of living pension adjustment payments are calculated effective July 1 in each year and are based on the lesser of the increase in the Canadian Consumer Price Index for the preceding calendar year, or the amount, determined by an actuarial review, that could be paid without resulting in an unfunded liability in the reserve.

(D) The financial statements do not reflect the financial position of the Fund on an actuarial valuation basis. In accordance with the Act, an actuarial valuation and report is required every 3 years. Without taking into account the Province of Manitoba rate of return guarantee, the most recent actuarial report as at January 1, 1984, disclosed a surplus of $37,677,206. compared to an unfunded liability of $19,506,225. at January 1, 1981. This most recent valuation did not make allowance for the financial effect of changes required to be made as a result of amendments to The Pension Benefits Act and the Actuary advised that it is possible that all of the surplus will be required to finance the resulting increase in liabilities.

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Notes to the Financial Statements
for the year ended December 31, 1984

(E) Reserve for Fund's share of employee's pension benefits:

The Fund is liable for payment of one-half of the pensions paid to its retired employees. Based on an actuarial report as at December 31, 1980, a portion of the Fund was allocated to provide for the Fund's accrued actuarial liability in this regard. An updated actuarial report as at December 31, 1983, increased the estimated liability by $23,952; this amount has been charged as administrative expenses to the current year. The updated report also provides a method of allocating further funds to the Reserve each year to recognize the annual increase in this liability. Transactions affecting the Reserve in 1984 and 1983 were as follows:

	1984	1983
Balance, beginning of year	$ 300,648	$ 255,396
Charged to Administrative expenses:		
Adjustment re Actuarial Valuation at December 31, 1983	23,952	—
Required employer contributions	18,433	17,296
Interest allocated from investment income	37,329	30,648
	380,362	303,340
Less: Fund's share of pension payments	2,914	2,692
Balance, end of year	$ 377,448	$ 300,648

(F) Computer:

Computer equipment is capitalized and is amortized on a straight line basis over five years.

2. Guarantee by the Province:

Under the Act, the Province of Manitoba guarantees that a certain rate of return which varies based on actuarial assumptions, will be earned on the assets of the Fund. Any deficiency in average annual earnings in the 3 year period following each actuarial valuation is made up by the Province; however, no payments have been required since 1975.

3. Investment in Subsidiary:

The Teachers' Retirement Resources Investment Corporation of Manitoba Inc., a wholly owned subsidiary of the Fund, was incorporated on July 13, 1983, for the purpose of participating in the energy resource sector on behalf of the Fund.

The Fund's investments shown in Schedule 1 include $4,383,128 recoverable advances provided by the Fund to the Corporation, the retained earnings of the Corporation, and an amount of $100 representing the capital stock issued by the Corporation. Net income resulting from the Corporation's operations is recognized as income of the Fund.

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Notes to the Financial Statements
for the year ended December 31, 1984

4. Effect of Legislative Changes:

Amendments made to The Pension Benefits Act during 1983 require changes consisting of earlier protection of pension rights, enhanced survivor benefit provisions, and other changes to be made to pension funds progressively commencing from 1984 to 1990. The actuary has made several preliminary estimates of the cost of implementing the above-mentioned changes which indicate a potential significant increase in the actuarial liabilities as at December 31, 1983 which as indicated in note 1(D) should be offset by the surplus disclosed in the most recent actuarial report. Particulars as to alternative courses of action available to effect compliance with The Pension Benefits Act have been submitted to officials of the government.